

**OPENING STATEMENT OF  
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI  
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,  
AND GOVERNMENT SPONSORED ENTERPRISES  
HEARING ON SELF-REGULATORY ORGANIZATIONS:  
EXPLORING THE NEED FOR REFORM  
THURSDAY, NOVEMBER 17, 2005**

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Mr. Chairman, more than two years ago, our subcommittee first met to examine issues related to self-regulation in our securities markets. In the many months since that hearing, we have examined other important matters affecting the industry, focusing considerable time on the adoption of revisions to the Securities and Exchange Commission's rules governing the National Market System. The Commission, like us, has now returned to studying how our self-regulatory system actually works and whether there is a need for reform.

As we begin today's proceedings, I want to reiterate my thoughts on the issue of self-regulation. In short, I continue by and large to favor industry resolving its own problems through the use of self-regulation.

Since the enactment of our federal securities laws, U.S. stock exchanges have served both as marketplaces for securities trading and as regulators of their member companies. For more than seventy years, this system, on balance, has worked remarkably well in protecting the integrity of our markets. In order for self-regulation to endure, however, the system must maintain the confidence of investors.

We developed the self-regulatory model under the stewardship of William O. Douglas, who before he became a Supreme Court justice determined that it was "impractical, unwise and unworkable" for the federal government to try to regulate our decentralized securities markets directly. In order for self-regulation to work, he also determined that the Securities and Exchange Commission needed to keep a "shotgun, so to speak, behind the door, loaded, well oiled, cleaned, ready for use, but with the hope it would never have to be used."

As my colleagues well know, I have made investor protection one of my top priorities for my work on this committee. Consequently, I share your concerns, Mr. Chairman, that our committee must conduct vigorous oversight to examine whether the regulatory system for the securities industry is working as intended and to determine how we could make it stronger.

The recent decisions of our exchanges and market centers to become for-profit entities have also resulted in a need to reexamine the self-regulatory model. Some have questioned whether a profit motive will result in the diversion of much-needed resources away from a robust self-regulatory system. This issue, in my view, deserves thorough and careful study.

In closing, I want to assure each of our witnesses that I approach these examinations with an open mind, but with a strong desire to protect investors in our evolving capital markets. I also look forward to continuing to work closely with you, Mr. Chairman, and with others as we address these multifaceted, complicated and important matters.

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